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SUBJECT: CHINA'S ENGAGEMENT IN ANGOLA

Ref: A) State 41697; B) Luanda 30; C) 07 Luanda 1069; D) 07 Luanda 1015; E) 07Luanda 923; F) 07 Luanda 326; G) 07 Luanda 287; H) 07 Luanda 171

1.(SBU) Summary. China's engagement with Angola starts with oil but does not end there. Publicly funded Chinese construction projects and a growing private Chinese corporate presence ensure a continuing commercial relationship. Chinese projects support Angola's central economic policy of rebuilding transportation links to catalyze the non-petroleum economy. Meanwhile, the Chinese and U.S. Embassies hope to design a joint development project, preferably in agriculture. End Summary.

#### Focus Areas of Chinese Engagement in Angola

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12. (SBU) China's interest in Angola starts with oil: in 2006, Sonangol-Sinopec International (SSI) offered two USD 1 billion signing bonuses to invest in two petroleum exploration blocks. SSI is the Angolan joint venture of two state-owned oil companies: China's Sinopec and Angola's Sonangol. SSI is an investor here, not an operator, but may bid to become an operator during Angola's current round of bids on new blocs, which has been suspended until after the September elections. Sinopec was originally to build a refinery for Angola in Lobito, but Angola cancelled the deal when Sinopec demanded that most of the output go to China. China's Ex-Im Bank has opened oil-backed lines of credit worth USD 4.5 billion and the GRA secured a reported additional USD 6 billion through the private Hong Kong-based China International Fund. Angola continues to request funding increases and China continues to oblige. In July China's Ex-Im Bank increased its line by 127 million dollars, according to Angola media sources.

13. (SBU) Throughout the country, Chinese financing builds and restores roads, railroads, hospitals, schools and other public buildings. Unpublished bilateral agreements give 70 percent of this work to Chinese firms, the rest to Angolan firms. The opportunity to employ excess capacity attracts Chinese State- and provincially-owned construction companies. Angolan President Jose Eduardo dos Santos publicly criticized the quality of Chinese-built public works, but Deputy Prime Minister Aguinaldo Jaime concedes that the GRA itself bears much of the blame for failing to conduct adequate project supervision.

14. (SBU) Chinese construction crews are prominent in the countryside and in the cities. The Chinese hire few Angolan workers, although Emboffs on occasion have seen Angolans running heavy equipment on Chinese projects. To avoid friction between their employees and Angolans, companies keep their Chinese employees either at work or out of sight in company housing. However, there is friction among Chinese. On May 23, for example, a group of Chinese workers standing in the back of a large truck came to Luanda looking for their embassy to complain that their Chinese employer had not paid or fed them.

15. (SBU) The Ministry of Finance claims construction projects financed through China Ex-Im Bank proceeded smoothly through 2006 and 2007. However, something went wrong during 2007 with projects financed through the China International Fund (CIF) and managed by Angola's National Reconstruction Office (GRN). Construction on several projects slowed; work on all three railroad projects came to a halt; and the international airport project stalled in the design stage. New domestic and Chinese financing announced in late 2007

appears to be alternative financing for those projects. By early 2008, work on all railroad projects resumed, but now with completion dates years later than previously promised. Not surprisingly, CIF's failure to deliver financing has eroded its status as confidante of Angola's powerful. Difficulties in execution were not all on the Chinese side. Chinese managers express surprise at the rapacity of Angolan officials, who demand their cut from contractors. Also, lengthy import delays have deprived Chinese projects of equipment and supplies, putting them behind schedule.

16. (SBU) Private Chinese businessmen had already reached Angola by the late 1980s and established restaurants, and, subsequently construction companies; others import consumer goods, heavy equipment, and most of Angola's imported cement. Chinese traders now are part of the commercial landscape. As the economy (slowly) diversifies, Chinese entrepreneurs seek new business activities throughout the country. Small builders with a dozen tradesmen restore older houses in Luanda. One large private Chinese firm is building a tract of two-million dollar homes on Luanda's upscale south side. The Chinese business community supports two chambers of commerce, one for private businesses, the other for publicly-owned companies which compete among themselves for contracts funded through Chinese lines of credit. Well-established private firms have learned how to survive Angola's difficult business climate and profit from the nation's oil wealth. The public firms can learn from them.

#### U.S. - China Cooperation

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17. (SBU) The Chinese and U.S. Ambassadors have agreed to explore possibilities for a joint development program, preferably in agricultural. The U.S. will present a proposal to the Chinese Ambassador soon. Potential areas for cooperation include combining Chinese work in transportation with American projects to rebuild agriculture.

#### Potential Areas for Increased Cooperation

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18. (SBU) American expertise in transportation design could play an important role as Angola turns from restoring colonial transportation to extending the road and rail system. Seaports and airports are another potential area for cooperation, although the Japanese also have projects to improve ports. A Chinese company was certain to win the contract to build a new international airport for Luanda with Chinese financing. That outcome may now depend on the source of financing. Private U.S. companies already are sharing their experience in managing aviation. Success in this area could lead to more U.S. presence in areas now reserved for the Chinese.

#### China - Angola Cooperation

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19. (SBU) Comment. China's long history of cooperation in Africa is short and complicated in Angola. Like the U.S., China had once supported Savimbi and UNITA. By moving swiftly to provide financing at the end of the civil war, China helped put its bilateral relationship on solid footing. The new relationship has hit some rough patches: the spat over the refinery, Angolans criticism of poor-quality Chinese construction, Chinese companies' employing few Angolans, the Chinese failure to impart skills to Angolans, and delays in GRN projects caused by funding problems. For perspective, Angola's relationships with Portugal, the United States, France and South Africa also mix warm friendship and sharp criticism from the Angolan side. Despite problems with Chinese-built projects, Angolan officials defend China's role in rebuilding the country as timely and critical, especially given the perceived failure of the West to step up to the plate to finance Angola's reconstruction.